

1to1 Magazine**Date: 08/30/2010****Issue: August 2010****People: [Mila D'Antonio](#)****Content Channel: [Customer Loyalty](#)**Follow Mila on: [twitter](#) [LinkedIn](#)**The Evolution of Customer Loyalty**

From S&H Green Stamps to American Airlines' AAdvantage frequent flyer program to Groupe Aeroplan's coalition loyalty program, loyalty initiatives continue to evolve. Today more than 75 percent of consumers are enrolled in at least one program, according to Jupiter Research, and the number of people in two or more is estimated to be one third of the shopping population.

As popular as loyalty programs are, these initiatives alone are not enough to ensure customer loyalty. Over the past two years, as companies face new challenges involving transparency from social media, inconsistency in delivering customer experiences across channels, and a price-focused economy, customer loyalty has become increasingly tenuous. Additionally, the cost of replacing customers is the highest it's ever been "It's become much more difficult for companies to really gain the type of loyalty that they used to," says Oscar Alban, principal global market consultant for [Verint](#). "Companies are very concerned, very concerned about losing customers."

So why has retaining customers become so difficult? The Internet and social media have played a huge part in dismantling the loyal customer. These channels have created a new kind of customer—a well-informed, vocal consumer who relies on the feedback and reviews of her peers when making purchasing decisions.

Bryce Marshall, director of strategic services at [Knotice](#), says this new transparent environment places every aspect of an organization's operations and its consumers' interactions under a microscope. "The value of their brand and products or services will be evaluated in a very open marketplace by a host of vocal constituents," Marshall says.

While this phenomenon may pose a threat to brand loyalty, so too does the paradigm of choice. Bruce Temkin, managing partner of [The Temkin Group](#), adds that when people are confronted with many different choices, they are much more likely to be upset with the decisions they make. "From the moment they make a decision to become a client...your work has just started," Temkin says. "You have to make sure to reinforce the value and positivity of the decision that the customer has made."

Inconsistent experiences across channels also threaten loyalty today. Temkin suggests that companies deliver a consistent and positive experience to customers at every interaction. Companies must engage customers more effectively and consistently after the sale, throughout their lifecycle, and across channels. Kevin Knowles, vice president of merchant loyalty at [First Data](#), adds that creating a centralized view of how customers behave across channels will help do so. "If you don't have a centralized model you run the risk of having your customer data fragmented," he says.

Despite these challenges, a number of companies are evolving their loyalty efforts by applying unique approaches to customer retention—specifically in the areas of social media, proactive customer service, onboarding programs, and loyalty rewards programs.

The boon and bane of social media

First Data's Knowles predicts that social media will significantly impact customer loyalty, prompting merchants to become more aware of how their products are perceived in the market. "The best loyalty program won't overcome bad products or how the consumer perceives value in it," he says.

Where companies are missing the boat, according to Alban of Verint, is creating emotional attachment. Smart companies, Alban says, acknowledge the positive and negative comments being said about them on social sites. "Social media is the perfect vehicle to drive [loyalty] up or down," he says. "You might as well embrace [social media]. Rather than dig your head in

a hole, hit it head on."

Take Comcast, for example. Led by Frank Eliason, former senior director, national customer operations, Comcast began replying to angry customers via social channels in 2007 with a simple question: "How can I help?" Not only did Eliason and his team solve customer problems, they also used what they learned to help Comcast improve the customer experience.

Most Comcast customers might not be lining up to recommend the cable provider, but Temkin says if companies give a reason for customers to start recommending them, and if they open up communities to their loyal advocates and give them a reason to contribute and speak, then those consumers are likely to stay positive.

While Comcast is applying steadfast social media efforts to repair its brand image and increase customer loyalty, Wheat Thins recently leveraged Twitter to elevate loyalty among its most avid fans. Wheat Thins tracked its most engaged customers, chose a few of its biggest fans, and then arrived at their houses to surprise them with a lifetime supply of the bite-size crackers. The brand says the gimmick is creating buzz while rewarding loyal customers.

Insight like Wheat Thins gathered on its customers through social media is invaluable in helping to maintain customer loyalty. However, many companies are realizing that they haven't invested the time, money, and expertise around understanding their customers, according to John Bastone, global product marketing manager for SAS Customer Intelligence. "Customers are becoming more demanding in terms of what they expect from the companies they patronize," Bastone says. "Companies that don't do this risk becoming less valued to customers."

Organizations that effectively leverage the valuable insight gleaned from social media, and then invest resources to create brand advocates who promote and recommend the company, will increase their opportunities to help retain loyal customers.

Next: Customer service gets proactive...

Customer service gets proactive

Social media may be proving itself as a new loyalty-building channel, but delivering great experiences through traditional customer service channels has long been one of the keys to winning the loyalty game.

Matthew Storm, director of Americas marketing at NICE, says organizations today can't rely on delivering one-time great service at the point of sale or solely in brick-and mortar locations. Companies must provide consistent and tailored experiences across channels and throughout the customer lifecycle. "If one channel is lacking in one way, shape, or form, [customers] will flock to other channels," he says.

To create consistency, organizations are adapting customer service philosophies from traditional channels for click-to-chat, email, and mobile, Storm says. "What you'll start to see is those channels providing more consistency by having the ability to handle the insights all in one place," he says.

In addition to threading service strategies, companies are starting to take a more proactive approach to their onboarding programs, with the goal of building long-term loyalty, according to Brian Kardon, CMO of Eloqua. Verizon Wireless, for instance, calls customers after they make a purchase to thank them and to provide them with a number to call if they have any questions regarding their new phone.

Ellie Mae, a provider of enterprise solutions for the residential mortgage industry, launched a nurture program last year supported by tools from Eloqua. New customers automatically receive an email inviting them to log in to Ellie Mae's online resource center, which walks them through the orientation process. The portal also offers users training recommendations and a guide to "first steps." And, it provides tools geared toward users' specific needs, such as conducting a "health check" of the software or contacting the service team for help.

Jerry Yin, manager of online marketing and analysis at Ellie Mae, says that the company is tracking word of mouth about the nurture program. Yin adds that Ellie Mae is looking at ways to enhance the user experience with additional tools and automation, and make the nurture program more targeted to each user's specific needs. "We want to continue the conversation with the customer," he says.

Companies that proactively engage with customers post-sale, not just to make money, but to educate and help the consumer, will earn customer trust. "Companies have started to take a closer look at the stage of being a customer and trying to work on

how to engage customers more effectively after the sale," says Temkin of Temkin Group. "If the retailer doesn't take responsibility with what makes you happy with that [purchase] decision, they lose your loyalty."

Loyalty programs grow up

A January [CMO Council](#) report delivered some sobering news: While 60 percent of marketers say that loyalty program participants are the best and most profitable customers, only 14.8 percent of respondents believe that they have been highly effective in leveraging loyalty among members and nearly 20 percent don't even employ a customer loyalty strategy.

Some attribute this to a heavy reliance on discounting. First Data's Knowles explains that companies still offer discounts rather than tangible financial incentives. "Make sure you're taking that opportunity and not just creating a discounting program, but taking the first step toward building a long-term relationship with customers," Knowles says. "People are more price-sensitive and you don't want to lose a customer coming in today who may be less price-sensitive in the future."

Too often loyalty programs frustrate customers with points programs that require customers to jump through hoops to earn rewards "Why do customers need to take the initiative to ultimately be rewarded for loyalty?," Knotice's Marshall asks. "Instead, businesses have the tools and consumer mandates to proactively recognize and reward customers who are loyal, profitable, and share their great experiences."

Temkin says he's noticing a change in how organizations are constructing their loyalty programs, largely due to the adoption of sophisticated segmentation strategies that help to offer clues about exactly what drives behavior in loyalty programs. More companies are offering unique experiences and services that are relevant to customers. "What companies are starting to do is look at how they can actually provide services outside of giving discounts," Temkin says.

[Leading Hotels of the World](#) is one organization that has devised a loyalty program that offers more than discounts. The company's Leaders Club is a three-tiered recognition program that boasts 95,000 members and provides exclusive privileges to loyalty club members based on spend.

In December the company made a "radical shift" to the five-year-old program, introducing a rewards component that offers a free stay for every five stays. "We felt this was a demonstration of the appreciation to our customers for their loyalty," says Claudia Kozma Kaplan, senior vice president of marketing. "To be able to get a free night at a hotel is legendary."

Kozma Kaplan conducted research prior to revamping the loyalty program and found that most loyalty club members in the travel industry have earned thousands of points, but they often don't use them because there's a general sentiment that they're difficult to redeem. "We wanted to make it simple and clean and come up with a very easy-to-use rewards key," she says.

The program's three tiers include the Basic level, which is complimentary and includes tailored offers and items presented in the room upon check-in. The Access level costs \$300 per year and includes 5 percent off the lowest available rate and preferential treatment in receiving upgrades. For \$2,000, a member can purchase the Unlimited level, which guarantees upgrades and provides 24-hour concierge service even when members aren't staying at a hotel.

Kozma Kaplan says the company has seen positive results since launching the rewards component, so the plan is to increase the resources around it. As a result, Leading Hotels is working with Clicksquared to help collect member data and conduct predictive modeling to get a closer look at customer behavior to offer more robust recommendations and rewards based on travel patterns and preferences. "More and more this program will become our signature program," she says.

[Affinia](#) is another hotel chain that recently introduced a recognition component to its loyalty program. CMO John Moser explains that boutique hotels comprise 4 percent of the market in the United States, so Affinia wanted to attract and retain customers in a unique way. Similar to Leading Hotels, Moser says Affinia wanted to recognize frequent guests, but didn't have the vehicle to do so.

In July it partnered with Stash Hotel Rewards, a program that enables travelers to earn free nights at independent properties. Now, guests who stay at any of Affinia's six properties in New York and Chicago can earn points toward free nights at a variety of participating hotels throughout the U.S. Stash hosts the database and when members sign up for the program through Affinia, the profile is shared.

Although the program is new, Moser says it is well received. "We're trying to find a way to make guest stays special and to not

be a commodity. We're giving something back to customers," Moser says. "It's really important in this day and age as customer jump around that you need to continue to find ways to make them want to stay with you."

Customer loyalty equals deeper investments

Customer loyalty is often determined by the strength of the relationship and the episodes throughout a customer's lifecycle that affect it. Therefore, companies can no longer think about ways to simply retain their customers; they must think of approaches that continuously build relationships. In other words, service can no longer be reactive.

"This requires companies to evolve past waiting for the customer to call, and being proactive instead," Verint's Alban says. "It will make customer service as a whole much more complex and it will take financial investment, but we're in one of those situations where you pay now, or pay later."

One aspect of taking a more proactive approach is to ingrain customer centricity into the corporate culture. Eloqua's Kardon says he is seeing the emergence of a new role—the customer success manager—to help sustain loyalty. He's also seeing more and more businesses tie employees' bonuses and salaries to customer retention. "These companies are seeing customer satisfaction and retention increase," Kardon says. "If employees realize a big part of their salary is tied to loyalty, they jump faster. It definitely is having an upward effect on loyalty."

Finally, organizations should use every interaction as an opportunity to win the loyalty of each customer. Knotice's Marshall says, "There's a critical difference between trying to win, and trying not to lose."

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